

Part VI
Operation of the Fund

Article 15
Investment and Distribution Policy

1. The Trust Fund Committee shall establish and revise from time to time, an investment and distribution policy consistent with this Agreement, with the intent that on October 1, 2023 and thereafter the Income shall be used for the purposes described in Article 3 of this Agreement.
2. The Investment Adviser(s) and Money Manager(s) shall cause to have the Fund invested only in Qualified Instruments that are identified from time to time by the Trust Fund Committee. Issues of bonds, notes, or other redeemable instruments of the Government of the United States shall be considered Qualified Instruments and the Money Manager(s), under direction of the Trust Fund Committee and the Investment Adviser(s), may invest the Fund in such issues without transaction fees or intermediary charges imposed by the Government of the United States.
3. The Fund and any Income derived from it shall not be taxable by the governments of the Parties to this Agreement to the extent that Income is derived from investment of the Fund in instruments of the Government of the United States or other Qualified Instruments.

Article 16
**Investment and Distribution to the Government of the
Republic of the Marshall Islands**

1. The Fund shall consist of three accounts to be referred to hereinafter as the "A Account," the "B Account" and the "C Account," respectively (collectively, the "Accounts"). Each Account shall become effective as described in this Article.
2. The A Account, which shall be established upon the effective date of the Compact, as amended, shall form the Corpus and consist of contributions from the Original Parties, and Subsequent Contributors. Except as otherwise provided in this Agreement, it also consists of the Income from the investments made from the Principal, and transfers from the B Account and C Account in accordance with this Article.
3. Through September 30, 2022, payment of Allowable Expenses of the Fund shall be made from the A Account. During this period, the amount, if any, of Fund Income in each Fiscal Year which remains after such payment of expenses shall be reinvested into the A Account. Except as provided in this Article, or under Article 13 paragraph 8, or Article 14 paragraph 1(c), or Article 14 paragraph 4(b), or upon withdrawal of contributions under Article 21, or upon termination of the Fund under Article 22, no funds may be removed from the A Account.

4. The B Account:

(a) On October 1, 2022 the B Account shall be created.

(b) During Fiscal Year 2023, all Income earned in Fiscal Year 2023 shall be deposited into the B Account for disbursement, in accordance with this Article, in Fiscal Year 2024.

(c) For Fiscal Year 2024, and thereafter, the B Account shall consist of the prior year's Income from investment of funds in the A Account.

5. The C Account:

(a) shall be created at the same time as the A Account and, beginning in Fiscal Year 2004, through Fiscal Year 2022, any Annual Income on the Fund over six percent (6%) shall be deposited in the C Account, up to the limit specified in (b) below. Beginning in Fiscal Year 2023, the C Account shall be replenished from the B Account in accordance with paragraph 8 below;

~~(b) shall contain no more than three times the estimated equivalent of the Fiscal Year 2023 Annual Grant Assistance, including estimated inflation calculated in accordance with section 218 of the Compact, as amended. Any excess above the estimated amount shall return to the A Account; and,~~

(c) may be drawn on, to the extent it contains sufficient funds, to address any shortfall in the B Account after Fiscal Year 2023, if Income on the A Account falls below the previous year's distribution (not including any amount distributed that year for Special Needs) adjusted for inflation, to the Government of the Republic of the Marshall Islands, and for Special Needs agreed to by the Trust Fund Committee.

6. After Fiscal Year 2023, if the Income in the B Account is less than the previous year's distribution to the Government of the Republic of the Marshall Islands, and the C Account cannot cover the shortfall in the B Account, then the Corpus shall not be accessed to compensate for the shortfall.

7. The Trust Fund Committee may disburse to the Government of the Republic of the Marshall Islands, from the B Account (supplemented from the C Account if the B Account is insufficient):

(a) in Fiscal Year 2024, an amount equal to the Annual Grant Assistance in Fiscal Year 2023, plus Full Inflation; and

(b) beginning in Fiscal Year 2025, and thereafter, an amount of funds no more than the amount equal to the Annual Grant Assistance in Fiscal Year 2023 plus Cumulative Full Inflation thereon, plus any additional amounts for Special Needs approved under paragraph 5(c) above.

8. Beginning in Fiscal Year 2023, the Trust Fund Committee shall transfer to the A Account any funds in the B Account in excess of the amount approved for disbursement in the following Fiscal Year, in accordance with paragraph 7 of this Article, unless such excess funds are needed to bring the C Account to the level specified in paragraph 5(b) of this Article.

9. A special account, hereinafter referred to as the D account, may be established to allow contribution by the Government of the Republic of the Marshall Islands for revenues or income from unanticipated sources. The D account shall not be mixed with the Fund, but shall have a separate account number. The Government of the Republic of the Marshall Islands shall have access to funds in this account for unanticipated shortfalls or other purposes. Funds in this account are not part of the Corpus.

10. Accountability

(a) Implementing procedures

(1) The Trust Fund Committee shall determine the fiscal procedures, including remedies, to be used in implementing this Agreement, provided that the Fiscal Procedures Agreement referred to in sections 211 and 213 of the Compact, as amended, together with any amendments to it over the 20-year period of the Compact, as amended, shall be the basis for such fiscal procedures, unless otherwise agreed by the Original Parties.

(2) No disbursements shall be made to the Government of the Republic of the Marshall Islands under this Article from the Fund until fiscal procedures have been agreed to under sub-clause (1) of this sub-paragraph (a).

(b) In the event that the remedies described in this paragraph do not correct any misuse of Income by the Government of the Republic of the Marshall Islands, and the Government of the Republic of the Marshall Islands continues to use, or causes to be used, Income or the Corpus for other than agreed purposes, remedies may be taken as provided in Article 21, paragraph 1 (a) of this Agreement.

11. Notwithstanding the foregoing, no funds shall be distributed from the A Account, the B Account or the C Account to the Government of the Republic of the Marshall Islands prior to October 1, 2023.

Article 17
Financial Year

The financial year of the Fund is the Fiscal Year.

Part VII
Accounts, Audit, and Reports

Article 18
Accounts

1. The Trust Fund Committee shall cause the Trustee to keep all proper books and records of account of the assets, property, liabilities, income expenditure, and transactions of the Fund and to produce these promptly in order to facilitate audit.
2. The Trustee shall create one sub-fund for each Party, reflecting that Party's share of the Principal and Income. The Trustee shall keep all records for each sub-fund.
3. All records and reports of Fund returns shall clearly segregate and identify gross Income, management fees, and net Income.
4. The Government of the Republic of the Marshall Islands will provide to the Trust Fund Committee full information and documents concerning its national budget and accounts, and any report of its public auditor.

Article 19
Audit

1. From its establishment and through Fiscal Year 2023, the Fund shall be audited at appropriate intervals by an independent auditor appointed by the Trust Fund Committee (the "Auditor"). Thereafter the Fund shall be audited annually by the Auditor.
2. The Auditor shall satisfy himself that the accounts of the Fund have been properly prepared in accordance with United States accounting standards and he shall either:
 - (a) state in his report that:
 - (1) the accounts have been properly prepared in accordance with the books and records of the Fund;
 - (2) the books and records of the Fund have been properly kept and contain information adequate for the purposes of his audit;
 - (3) the balance sheet and income and expenditure account of the Fund give a true and fair view of the Fund's financial position; and
 - (4) the financial affairs of the Fund have been properly conducted in accordance with this Agreement; or
 - (b) notify the Trust Fund Committee that he is unable to complete his report as provided in sub-paragraph (a) of this paragraph 2 giving his reasons.

3. The Auditor shall include in his/her report information on the performance of the Trustee and Money Manager(s) in the investment of the Fund in accordance with the guidelines laid down by the Trust Fund Committee with comparative references to the performance of managers of other funds of a similar size and nature.

4. The Auditor shall submit his/her report to the Trust Fund Committee.

Article 20

Annual Reports

Within six months of the end of each Fiscal Year the Trust Fund Committee shall publish and shall submit to the Government of the United States and to the Government of the Republic of the Marshall Islands:

(a) an annual report on the activities and management of the Fund, including the Accounts described in Article 16 (Investment and Distribution) of this Agreement, and on the effectiveness of the Fund to accomplish its purpose as described in Article 3 of this Agreement; which annual report may include recommendations regarding improving the effectiveness of the Fund to accomplish that purpose;

(b) the accounts of the Fund for that year audited in accordance with Article 19; and,

(c) reports of the Auditor under Article 19.

Part VIII
Withdrawal and Termination

Article 21
Withdrawal of Contributions

1. The Government of the United States may withdraw the Present Market Value of its contributions to the Fund, and any undistributed Income therefrom:

(a) in the event the Government of the United States determines, after consultation with the Government of the Republic of the Marshall Islands that the Government of the Republic of the Marshall Islands grossly failed to use the Income for the purposes described in Article 3 of this Agreement.

(b) should the Government of the Marshall Islands:

(1) fail to fulfill its obligations under the separate agreement regarding mutual security concluded pursuant to sections 321 and 323 of the Compact, as amended; or,

(2) take any action which the Government of the United States determines, after appropriate consultation with the Government of the Republic of the Marshall Islands, to be incompatible with the Government of the United States' responsibility for security and defense matters in or relating to the Republic of the Marshall Islands, as set forth in such agreement(s).

2. Except as provided in paragraph 1 of this Article, any other Party may withdraw from this Agreement by depositing an instrument of withdrawal with the Depository.

3. In the event of withdrawal by a Party, no distribution of assets shall be made to that Party until that Party discharges its proportionate share of operating expenses, fees, and other administrative costs. Subsequently, the Present Market Value of the remaining Principal and Income attributable to that Party shall be paid back to that Party.

4. A Party that withdraws from this Agreement shall have no rights under this Agreement except as provided in this Article and Article 24, and no refund of its contributions shall be made to it except as a distribution of assets as provided under this Article and Article 22.

Article 22
Termination and Distribution of Assets

1. The Fund's operations may be terminated by written agreement of the Original Parties.

2. Upon termination of operations the Fund shall immediately cease all activities, except those incidental to the orderly realization and conservation of its assets and the settlement of its obligations.

3. On final settlement of the obligations of the Fund and the distribution of its assets *this Agreement shall terminate. Until then, the Fund shall remain in existence and all* rights and obligations for the Fund and the Parties and Subsequent Contributors under this Agreement shall continue unimpaired.

4. In the event of termination, no distribution of assets shall be made until all liabilities have been discharged. Subsequently, the remaining assets of the Fund shall be distributed as follows:

(a) the Present Market Value of the Principal and Income attributable to the Government of the United States shall be paid back to that Government; and,

(b) the Present Market Value of the Principal and Income attributable to the Republic of the Marshall Islands shall be paid back to that Government.

(c) the Present Market Value of the Principal and Income attributable to Subsequent Contributors shall be paid back to those Subsequent Contributors, unless such Subsequent Contributors agree otherwise.

Part IX
Miscellaneous Provisions

Article 23
Amendments

The Agreement may be amended at any time in writing by mutual consent of the Original Parties.

Article 24
Dispute Resolution

1. Any dispute arising out of this Agreement between the Original Parties, whether during the life of the Fund or on its termination of its operations, that cannot be resolved by the Trust Fund Committee:

(a) shall, if the dispute involves Articles 4, 6, 8, 9, 12, 13, 14, 15, 17, 19, 23, 25, and 26, be referred for resolution to the Original Parties. The Original Parties shall confer and resolve the dispute. If either government feels it is necessary, it may give written notification to the other government that it wants the issue to be referred to the Under Secretary of State (or equivalent) of the other Government.

(b) All other disputes may be resolved in accordance with the procedure described in sub-paragraph 1(a) above, or through the conference and dispute resolution process set forth in Article II of Title Four of the Compact, as amended.

2. Disputes involving Subsequent Contributors should be handled as mutually agreed by the Original Parties and Subsequent Contributors.

Article 25
Depository

The Depository for this Agreement shall be the Government of the United States.

Article 26
Final Provisions

1. This Agreement shall be open for signature by the Governments of the Republic of the Marshall Islands and the United States.

2. This Agreement shall enter into force on the effective date of the Compact, as amended,

3. After entry into force, this Agreement shall be open for accession by Subsequent Contributors, other than the Original Parties, at the invitation of the Trust Fund

Committee and in accordance with such arrangements including an initial contribution to the Fund as may be agreed by the Trust Fund Committee.

4. For a Subsequent Contributor which accedes to this Agreement, the Agreement shall enter into force 30 days after the deposit of its instrument of accession.

5. Interpretation. In this Agreement, all references herein to Articles and sections shall be deemed references to this Agreement unless the context shall otherwise require. References to statutes or regulations are to be construed as including all statutory or regulatory provisions, as applicable, consolidating, amending or replacing the statute or regulation referred to. All references to agreements and other documents as amended, modified, supplemented or restated from time to time in a manner consistent with the terms and conditions of this Agreement. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with Generally Accepted Accounting Principles, as in effect from time to time in the United States of America.

DONE at Majuro, RMI, in duplicate, this 30th day of April, 2003, each text being equally authentic.



FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:



FOR THE GOVERNMENT OF THE
REPUBLIC OF THE MARSHALL ISLANDS: